

# BUSINESS CONDITIONS

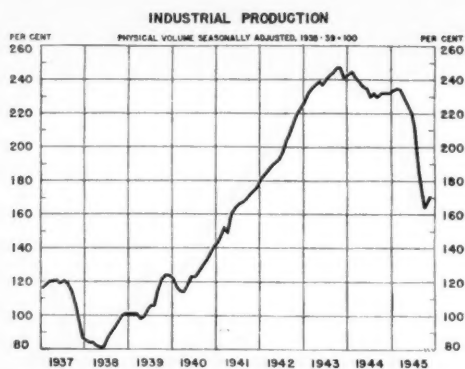
A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO



DECEMBER, 1945

# NATIONAL SUMMARY OF BUSINESS CONDITIONS

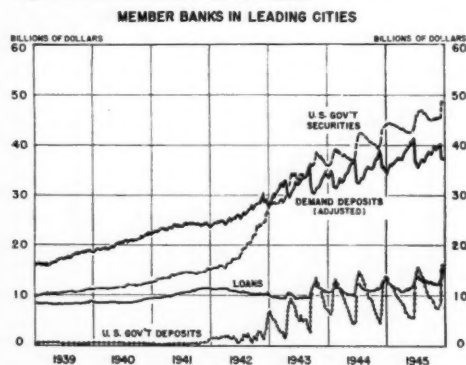
BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM



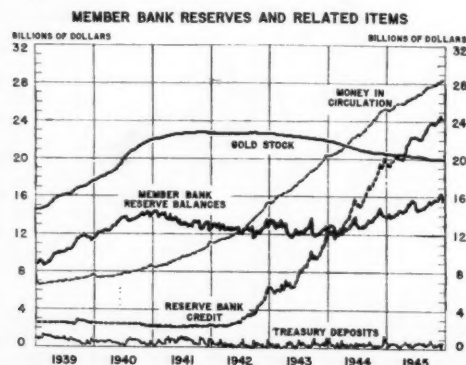
Federal Reserve index. Monthly figures; preliminary for November 1945.



Federal Reserve indexes. Monthly figures, latest sales figures shown are for November 1945, latest stock figures shown are for October 1945.



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for December 12, 1945.



Wednesday figures, latest shown are for December 12, 1945.

Output at factories and mines increased considerably in November and activity continued to expand in most other lines. Value of retail sales reached new record rates in November and the early part of December reflecting in part further increases in prices.

**Industrial Production**—Output in most industries showed important gains in November and the Board's index of industrial production advanced about 5 per cent. The index, at a level of 171 per cent of the 1935-39 average, was about the same as in September and in the autumn of 1941. Output for civilian use in November, especially of fuels, industrial materials, and producers' equipment, was larger than in those earlier periods. Production for civilians of many finished consumer products, however, like automobiles, radios, clothing, and shoes, while much higher in November than in September, was still greatly reduced from 1941 levels.

Steel production showed a large rise during November and in the first three weeks of December output was scheduled at an average rate of 83 per cent of capacity, which was higher than the November average. Activity at shipyards continued to decline considerably in November but increases occurred in most other metal fabricating industries. Further increases in output were indicated in plants producing electrical products and machinery and in the railroad equipment and automobile parts and assembly industries. Automobile production, however, was curtailed sharply in the last week of November and the first half of December by a strike in the plants of a major producer.

Lumber and glass production were at low levels in November owing partly also to industrial disputes. In the case of lumber, however, output in recent months before the West Coast strikes was below 1939 levels and one-third less than the rate in 1941.

Production of most nondurable manufactures and of fuels increased from October to November reflecting increased supplies of materials and labor and the end of work stoppages in the petroleum and coal industries as well as strong demand generally for these and most other goods for civilian use.

Incomes received by agriculture, business, and consumers appear to have continued to rise in November as a result of the widespread increases in production and employment and further rises in prices and wage rates. Payments to unemployed industrial workers and veterans also increased somewhat in November.

Employment in nonagricultural establishments rose by over 300,000 workers in November, after allowing for seasonal changes, reflecting increases in all major lines except Federal war agencies. A further decline of about 100,000 workers in munitions industries was more than offset by gains in employment in other manufacturing industries, mostly in reconverted metal-products plants. Employment in the trades and services, construction, and various other lines showed relatively larger increases than in manufacturing.

**Distribution**—Department store sales increased sharply in November and the Board's seasonally adjusted index rose to a record level of 228 per cent of the 1935-39 average as compared with 213 in October. November sales were 11 per cent larger than last year and in the first half of December sales continued to show about the same increase. Sales at some other types of retail stores, especially those selling automotive supplies, men's apparel, furniture, building materials, and hardware, have recently shown much larger increases than department stores, while sales of foods and various other products have shown somewhat smaller increases.

**Bank Credit**—Loans and investments at banks in 101 leading cities increased by over 7 billion dollars during the six weeks ended December 12; this period covered the major part of the Victory Loan Drive. Government security holdings increased by 3.7 billion dollars—a somewhat smaller rise than had occurred in the three prior drives. Loans for purchasing or carrying Government securities rose by 2.5 billion dollars, and at their mid-December levels loans both to brokers and dealers and to other bank customers slightly exceeded the high points of the previous drives. Commercial and industrial loans, which had been expanding since early fall, rose by an additional 800 million dollars during the six-week period. The increase in commercial credit extension has been at a rate substantially greater than at any time in recent years.

As payments for security purchases transferred funds from deposits of businesses and individuals to reserve-exempt war loan accounts, the average level of required reserves at all member banks declined by around 500 million dollars during the first half of December. Early in the month, excess reserves rose to above 1.5 billion dollars on a weekly average basis. Subsequently, however, excess reserves declined somewhat, as the amount of War Loan deposits at many banks reached the maximum limits and banks turned over to the Treasury current receipts from sales of Government securities.

Currency outflow has continued at a slackened rate compared with wartime years; money in circulation increased by close to 350 million dollars during the six weeks ended December 12 compared with over 750 million in the 1944 period. On a seasonally adjusted basis, currency outflow has recently been at the lowest rate since the early part of 1941.

# Financing Unemployment Compensation—I

## *An Experiment in Federal-State Coordination*

For the past decade the employers of from 60 to 75 per cent of the wage earners in the United States have been making payroll tax payments to the states and the Federal Government for the support of a system of unemployment insurance. During this period the states, the District of Columbia, and the territories have collected approximately 8.5 billion dollars of such earmarked revenue, and the Federal Government has received 1.6 billion dollars from its payroll tax for employers of eight or more persons and under the provisions of the Railroad Unemployment Insurance Act.

The principal administrative costs of the program have been financed by the Federal Government through grants to the states, and during the period have aggregated nearly .5 billion dollars. Benefits to the unemployed have been met from a trust fund with 52 separate accounts accumulated by the deposits of state tax receipts and railroad unemployment insurance contributions and interest thereon. These benefits during the past decade have amounted to over 2.2 billion dollars, and there is at present a consolidated balance in these funds of approximately 7.5 billion dollars (including the railroad account) earmarked for future payments to the unemployed.

Government insurance of unemployment risks was an innovation in Federal and state finance a decade ago. Only one state—Wisconsin—had experimented earlier with unemployment insurance, and its law was first effective in 1932. The system of insurance adopted in 1935 was a major phase of a broad social security program which in addition encompassed aid for the aged, the blind, and dependent children. The unemployment insurance provisions of the Social Security Act were not only novel in their objective but also in their financing arrangements and in the character of Federal-state relations which they inaugurated.

At the time of its adoption, unemployment insurance was not expected to cover fully the hazard of unemployment even for the workers in covered employment. It was expected to deal more or less adequately with frictional and seasonal unemployment and provide an initial offset to the loss of income from unemployment arising out of cyclical movements in economic conditions. Tax liabilities of employers for the support of this program were first incurred in January of 1936; benefits were withheld for a period of two years as reserves were built up. The program was in full operation in all states before the stimulus of defense expenditures began to be felt in the economic life of the country. Several years of high employment and rising rates of compensation have brought about the accumulation of substantial reserves in the trust fund and a not wholly anticipated financial

capacity to deal with problems of unemployment. Time has also brought about a wider acceptance of a Government-financed program of social security and thus led to considerable discussion of the future functioning of unemployment insurance.

This public debate involves radical differences of opinion as to the role that unemployment insurance should play in combating economic effects of unemployment, the responsibility of the Federal Government and the states in administering the program, the integration of insurance benefits with public assistance or economic stimulation, and the reduction of employer tax liabilities through the extension and development of experience rating devices and the resulting effect upon the level of benefit payments and qualification conditions. These issues have been considered officially and unofficially in connection with re-conversion; they will become more vital and pressing in later years if substantial cyclical unemployment should develop.

### SCOPE OF UNEMPLOYMENT BENEFITS

The present system of unemployment insurance is characterized by a considerable variation in worker benefits arising out of differences in state statutes. The Federal framework under which all state laws operate imposes no minima or maxima on benefits which any state chooses to adopt excepting for those implicit in the financing arrangements. The payroll tax credit indirectly enforces a ceiling on benefit payments if state reserves for such payments are to remain solvent.

Originally state laws provided for a maximum weekly benefit of \$15 with a maximum duration of from 10 to 20 weeks (16 weeks was most common), and a waiting period of two or three weeks before benefits began. These provisions have been progressively liberalized as it became apparent that the trust accounts were capable of supporting more liberal payments and as rising price levels and wage payments lowered the ratio of benefit compensation to previous weekly earnings. Taking into account legislation enacted by the states in 1945, it is estimated that states with over three-fourths of covered workers provide maximum weekly benefits of 20 dollars or more, and that a somewhat larger number of states with over four-fifths of the covered workers afford a maximum duration of 20 weeks or more. The waiting period has been generally reduced to one week. In addition, minimum benefit payments have been generally increased, dependency allowances have been introduced in four states, the period of benefit has been made uniform instead of varying with wage credits in nearly one-third of the states, and the



coverage for seasonal workers has been extended by the repeal or limited application of seasonality provisions which restrict benefits to the period of seasonal employment.

The Federal law made employer contributions mandatory upon firms employing eight or more workers. Many state laws when initially adopted extended the coverage to employers of one or more; three-fifths currently have a broader coverage than does the Federal law.

Several large segments of the working population are excluded from both Federal and state laws. Prominent among these are the agricultural workers, domestics, self-employed, maritime workers, and employees of Federal, state, and local governments and of non-profit institutions. In addition to these exclusions, qualifications for benefit payments arising out of administrative complications have seriously curtailed the adequacy of unemployment compensation. Such restrictions are inherent in any insurance system which functions with proper administrative safeguards. The determination of the eligibility or disqualification of millions of idle workers to receive benefits is not a clear cut process nor is it capable of accurate determination without exorbitant administrative costs. The standards in current use are even now in the process of development. The safeguards employed by the states to weed out claims which are not bona fide and to preserve the solvency of their trust accounts have necessarily impaired the attainment of some of the broader social objectives of unemployment insurance.

#### PAYROLL TAXES

The Social Security Act levies a tax on employers of eight or more workers proportional to the amount of their payroll, up to three thousand dollars annually per worker. The rate of tax in the first year of operation (1936) was 1 per cent; in 1937, 2 per cent; and in 1938 and thereafter, 3 per cent. A 90 per cent credit against this tax is allowed to each employer for his state payroll taxes in states having unemployment compensation systems approved by the Social Security Board. This crediting device rapidly forced the adoption of state unemployment compensation laws in the United States, the last state to enact its law being Illinois in 1937.

The original unemployment payroll tax provisions of the Social Security Act set forth conditions under which reductions in state tax rates on employers, if based upon experience with the risk of unemployment, could be offset against the Federal tax. The additional credit for experience rating, as it is generally known, was withheld until certain requirements with respect to reserves were met and until experience with benefit payments over a period of three years (contributions over five years, as benefits were not paid in first two years of operation) had been attained. These conditions were relaxed to some degree by the 1939 amendments to the Act and were satisfied in many states by 1940-41; thereafter, experience rating was widely put into effect by the several states.

At present all excepting five states utilize provisions for reducing the state tax rates on payrolls for employers. Since these plans are recognized in the Federal law, a saving in state payroll taxes is not offset by higher Federal payroll taxes, although in many instances the tax saving probably has been recouped in large measure by Federal excess profits taxes. Since its adoption, experience rating is estimated to have reduced the accumulation of funds for benefit payments by some 1.5 billion dollars.

The cost of unemployment insurance, or a more general system of benefit payments to the persons who suffer from involuntary idleness, can be defrayed from the general revenues of the states and the Federal Government or from the imposition of a special tax earmarked for that particular purpose. The latter alternative, of course, is the one which has been used up to the present time. Had the other alternative been adopted, benefits would have of necessity been generally available to all persons involuntarily unemployed, and coverage could not have been restricted as it is under the existing program. The cost of benefit payments would then have been borne by personal and corporate income taxes, sales and excise taxes, and other levies that the Federal Government and states employ.

From the long-run standpoint, it is generally preferable to avoid the allotment of the yield of a specific tax to a particular function, or to fix expenditures for a particular function by reference to a specific tax yield. The consequence that has commonly ensued from state experience with this type of segregation (Federal experience with earmarking has been negligible) is that expenditure needs and tax receipts tend to get out of alignment. If, on the one hand, earmarked receipts outstrip the scale of expenditures, there is a tendency for expenditure policy to be revised—often within the range of administrative discretion—to absorb the excess receipts. Often this occurs with too little weighing of the relative importance of the earmarked expenditure against expenditure in other fields of government service. If, on the other hand, the revenue is inadequate to provide a desirable scale of expenditure for the particular function, it tends arbitrarily to restrict that expenditure to less than the requirements of desired public policy. It is, of course, always theoretically possible to obtain nicety of balance between the earmarked revenues and their related expenditure programs, but in actual practice adjustments in a given tax rate and expenditures for a particular function are far more difficult to attain than an over-all balancing of total government expenditures and revenues.

The use of the payroll tax levied on employers acts both as a revenue-raising device and, with the nearly universal adoption of experience rating, as a penalty on employers with poorer than average employment records. To a considerable degree this penalty—or the converse premium—for an abnormal employment record can have little effect on employment practices. Experience rating either implies that it lies within the power of an employer

to stabilize his employment or that those employers in locations or industries characterized by high unemployment risks should bear higher tax costs. More often than not the employer is subject to factors which make a poor or good experience record as involuntary for him as it is for the unemployed worker. The social gain from an additional financial incentive to stable employment, whatever it may be, must be offset, moreover, against arbitrary and capricious variations in tax rates that the competing employers suffer because they happen to be subject to a bewildering diversity in state-imposed qualifications for experience rating.

The use of the payroll tax for unemployment insurance complicates an analysis of the propriety of this means of finance because of the difficulty of determining the incidence of the tax. Some employers are able to pass a substantial portion of their payroll taxes on to consumers of their products, but it is probable that more employers shift the tax back to their employees. In some instances the enterprise absorbs the tax. A more complete coverage of employers would facilitate shifting, but even with complete coverage there would be substantial differences among employers as regards the incidence of the tax. The idea, therefore, that the tax is a penalty or incentive to the employers to stabilize their employment record is in some measure illusory.

Experience rating has been one means of reducing payroll taxes and bringing the contributions to the unemployment fund in closer alignment to the scale of benefits. Although tax reductions thus effected have already reduced accumulations to the fund substantially, the fund is still far in excess of what appears necessary to provide the present scale of benefits in the early postwar years. A period of prolonged unemployment accompanied by sharp declines in weekly earnings, however, would require the restoration of the standard rate in many states and at a time when heavier costs to employers are likely to be most onerous.

The compliance burdens on employers involved in payroll accounting for unemployment compensation when combined with similar requirements for old age and survivors' insurance, income tax withholding, and other payroll deductions, are a substantial expense that seems largely unnecessary.<sup>1</sup>

It is reasonable to assume that revisions in financial

arrangements for social security will in the future be concerned with consolidating and integrating payroll deductions charged to both employers and employees so as to minimize the compliance and public costs that now exist. The federalization of unemployment insurance is not a prerequisite to simplification in the tax structure. Uniformity in withholding arrangements will become even more important if proposals are adopted to add other elements, notably health and disability insurance, to the social security program and pay for them by payroll taxes on employers and employees. The need for some integration and simplification in the tax administration will then become too obvious to be delayed longer.

#### ADMINISTRATION

Unemployment insurance is administered by the several states. However, the staff and facilities required for determining workers' qualifications for benefits, the actual disbursement of weekly allotments, and the collection of state payroll taxes are provided out of funds granted to the states by the Federal Government. The Federal Government is also at some direct administrative expense to collect its payroll tax and to render through the Social Security Board certain overhead services in connection with the entire program. By far the greater part of administrative expenditures, however, is incurred by the state organizations.

Departing from all precedents established in the grants of Federal funds to the states, the Social Security Act provided Federal funds to states in amounts required for adequate administration. No matching conditions were laid down, and the controls delegated to the Social Security Board to insure the proper expenditure of Federal funds were inadequate to secure anything like the same measure of expenditure control that the Federal Government exerts over its own disbursements. It would be surprising indeed if this arrangement had operated without friction and dissatisfaction on both sides. The disagreements that have arisen, however, have probably entailed substantial advantages as well as the obvious disadvantages. No doubt the experience so acquired has exercised a considerable influence on the understanding of the problem for both parties and in the long run effected a better administrative organization than might have been attained with the traditional arrangement. Moreover, a 100 per cent Federal grant for administrative purposes may suggest the clue for simplifying the financial impediments to dealing with problems of an interstate nature at the state level. A state hardly can object to promoting policies or expenditures that relate primarily to interstate aspects of unemployment if such expenditure is fully reimbursed by the Federal Government.

The Federal grants for administration are paid from general Treasury funds but are usually regarded as an offset to Federal payroll taxes under the Unemployment Tax Act. Collections from this tax have aggregated more than 1 billion dollars since 1936, and grants to the

<sup>1</sup> The Social Security Board summarizes the situation so far as these burdens are related to payroll taxes, as follows:

"The multiple system of tax collection is unduly costly in terms of public expenditures and expenses of employers for tax compliance. Nearly all establishments are subject to Federal contribution for old-age and survivors insurance, the Federal unemployment tax, and contributions under one or more State unemployment compensation laws. On the other hand, some small employers are not subject to the Federal unemployment tax, though liable for Federal old-age and survivors insurance contributions and unemployment contributions under State law. A few are subject only to the last and not to any Federal tax. When an employer is taxable by both Federal and State governments, the respective coverage does not necessarily relate to the same employees or the same amounts of wages. An interstate employer may be required to make reports to several different States on different forms, under different instructions, and at different rates. He may not be sure in which State a worker is covered. Triplicate tax collections must be made—by the Federal Government for the two Federal insurance taxes and by the State unemployment compensation agencies. Duplicating wage records are necessarily maintained by the Federal Government for purposes of old-age and survivors insurance and by the State unemployment compensation agencies."—8th Annual Report, Social Security Board, 1943, p. 35.

states for unemployment administration in the 10-year period have totaled 420 million dollars. The addition of administrative costs of the Social Security Board hardly brings the grand total for administration to 450 million dollars.

#### FEDERALIZATION OF UNEMPLOYMENT INSURANCE

There have been numerous proposals that unemployment insurance, its administration, the scale of benefits, and the taxing provisions should be made exclusive responsibility of the Federal Government. These proposals have been supported by arguments that the problem of unemployment does not lend itself to being partitioned into 49 arbitrary compartments, that many workers and employees are engaged in interstate business, that remedies for local or regional decline in employment opportunities require national rather than state action, that administrative costs of the dual arrangement are exorbitant, and that the diversities which obtain in tax and benefit provisions are arbitrary and confusing and impose needless burdens on employers and unemployed.

Clearly, the broader phases of the problem of unemployment are a matter of major concern to the Federal Government and, to the extent they are affected by national monetary and fiscal policies, are beyond the effective control of the several states. While there may be some doubt as to the need for federalization of unemployment insurance, there can be no question that there is a wide acceptance of the thesis that the Federal Government cannot and should not absolve itself of the responsibility for dealing with the broader phases of the problem of unemployment. That portion of public policy which is directed at alleviating the effects of unemployment through government insurance, however, offers alternatives as to the extent of state participation. These in turn depend largely upon a more general understanding of the contribution of unemployment insurance to the larger problem, and upon the removal of such barriers as may make it difficult for the states and the Federal Government to cooperate in a coordinated attack upon the problem.

Much unemployment can be obviated and the duration of enforced idleness can be considerably lessened by a well-integrated employment service and vocational education. Several years before the enactment of the Social Security Act the Federal Government encouraged the establishment of employment services through matching grants to the states. Even earlier it made available matching grants for stimulating state expenditures for vocational training. Both programs were vastly extended (the former was taken over by the Federal Government) on a temporary basis during the war to facilitate the training and placement of people in war production. In many respects these programs can be administered at the state level and on an intrastate basis, but if a desirable degree of mobility of labor is to be preserved, there is need for programs and policies that readily transcend

arbitrary state lines. As in the case of many other governmental services, the ideal administrative organization from the standpoint of economy depends upon the delineation of service areas in which uniformity of policy and procedure is desirable; these areas are not necessarily coincident with state lines. It should be possible for both employers and wage earners of adjoining states where economic conditions are similar and job or entrepreneurial opportunities are interchangeable to cross state lines without any alteration in payroll costs, unemployment benefits, or employment services. Such possibilities are somewhat more difficult to achieve under state administration than under a Federal system but are not incapable of accomplishment if an understanding of their importance and contribution to economic stability is recognized.

The principal arguments against federalization of unemployment insurance are those which are commonly urged in connection with all programs of Federal expenditure which overlap or infringe upon any existing or potential state or local government service. They are associated with apprehensions that the sheer size of undertakings to render service on a nationwide scale will result in unwieldy organizations which shortly become too large and powerful to be responsible to traditional citizen controls. Smaller state organizations, on the other hand, can be more directly controlled and can attain a higher degree of responsiveness and flexibility in their programs. The considerable differences in economic and social conditions in various sections of the United States and in the temper and desires of the citizens of various areas contribute another reason for preferring state to Federal administration. Not only can more diversity in policy and administration be attained, but such policy differences can be made to reflect views that do not prevail in determining national policy.

For every program of government aid which entails the possibility of geographical differences in benefits or services, there is ordinarily a practicable means for taking those differences into account. This is feasible under either Federal or state administration. In the case of unemployment compensation, for example, regional differences in scales of living can be reflected by fixing benefits in terms of previous earnings. The real issues involved in this dispute relate to the kind and extent of diversity under Federal or Federal-state administration. Thus, many advocates of federalization contend that disparities in tax and benefit provisions should not be permitted and that an exclusive role for the Federal Government in unemployment insurance is necessary in order to obtain uniformity in governmental services. This view is often associated with the establishment of national minimums for health, welfare, and education, and the use of taxable resources wherever they may be found for that purpose. The character of Federal taxation and the expanding role of governmental expenditures in the total economy have already brought about considerable movement in this direction.



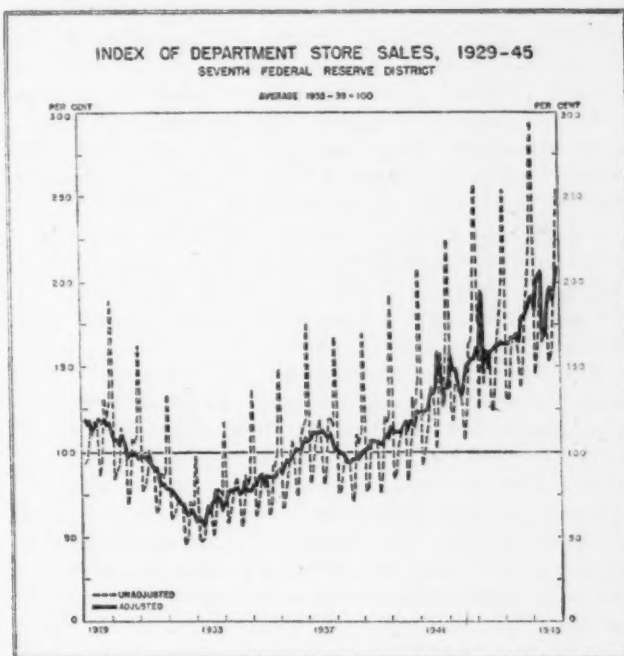
# Record Set in Department Store Sales

*1945 District Total 10 Per Cent Over Previous Year*

New record levels are again reported for the dollar sales volume of department stores located in the principal cities of the Seventh Federal Reserve District and for the District as a whole. It has been estimated by the Federal Reserve Bank of Chicago that 1945 sales in the Chicago department stores have reached a total of 372 million dollars; in Detroit, 194 million dollars; in Indianapolis, 73 million dollars; in Milwaukee, 94 million dollars; and in the Seventh Federal Reserve District, 1,294 million dollars.

These department store sales totals are a continuation of an unbroken chain of advances that started in the pre-war year of 1939. Since that time the largest expansion has been recorded by Indianapolis and Milwaukee stores, where sales have more than doubled in value. Detroit stores have had an increase in sales volume of nearly 90 per cent over the 1939 dollar value, Chicago stores, more than 60 per cent, and the District as a whole, approximately 80 per cent.

The dollar volume of department store sales which had been expected to decline in 1945 because of depleted inventories—especially with the end of the war and reconversion difficulties—exceeded 1944 levels. In this respect Milwaukee stores take the lead with an estimated gain of 14 per cent; Indianapolis stores follow with an



increase of 12 per cent; those of Chicago show an advance of 11 per cent; sales of Detroit stores rose 4 per cent, less than the average for the other cities. The District total increased 10 per cent.

Holiday buying, in general, exceeded last year's dollar sales by better than 10 per cent. This gain, as well as others in the volume of 1945 sales, largely reflected price advances, rather than increase in physical volume. Much Christmas shopping was concentrated in higher-priced gift items of jewelry, toiletries, lingerie, men's and women's apparel, and household appliances. The needs of returning military personnel accelerated department store sales late in 1945.

Figures for the first eleven months of 1945 indicate that sales were above year-ago levels in all merchandising divisions of the reporting department stores for the Seventh District. Women's apparel sales were 14 per cent greater than those of a corresponding period of 1944; house furnishings, 12 per cent; men's and boys' wear, 10 per cent; small wares, 8 per cent; and piece goods, 4 per cent. Available supplies of household items and musical instruments permitted sharp advances in sales. Many items in apparel lines continued to show consistent gains from year-ago figures. Because of merchandise shortages in domestics such as muslins, sheeting, and floor coverings, the trend in these sales was the only exception to increases generally shown for classifications by departments.

## ESTIMATED ANNUAL DEPARTMENT STORE SALES

(In millions of dollars)

Year	Seventh District	Chicago	Detroit	Indianapolis	Milwaukee
1929 <sup>1</sup>	774	294	128	33	50
1930	680	254	107	27	46
1931	590	215	91	25	41
1932	453	166	68	20	31
1933	452	171	59	20	30
1934	529	189	76	23	35
1935	575	198	85	25	37
1936	671	225	97	29	43
1937	730	241	106	31	47
1938	658	216	92	29	42
1939 <sup>1</sup>	715	229	102	32	44
1940	781	244	122	35	47
1941	905	268	147	41	57
1942	996	283	172	48	66
1943	1,080	305	178	58	73
1944	1,178	335	186	65	82
1945	1,294	372	194	73	94

<sup>1</sup>Reported by Department of Commerce, Census of Business.  
Note: Estimates of the annual department store sales are based on the corresponding indexes which are compiled and released currently by this Bank.

# New Indexes of Department Store Stocks

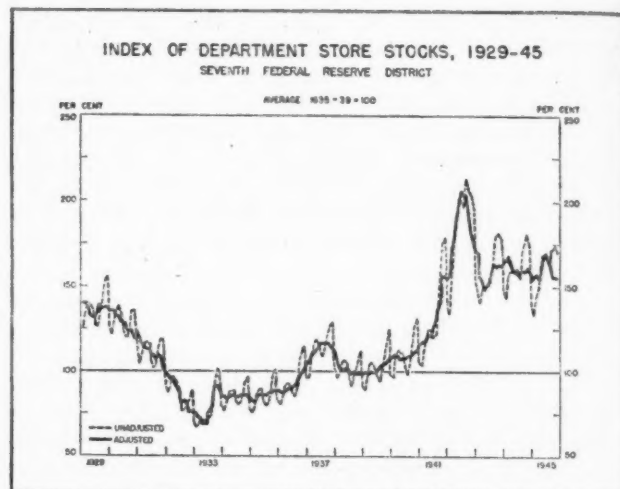
## City Results Show Variation in Trends

Indexes of stocks held by department stores have been prepared by the Federal Reserve Bank of Chicago for the Seventh Federal Reserve District and the cities of Chicago, Detroit, Indianapolis, and Milwaukee. These indexes, adjusted for seasonal variation and without seasonal adjustment, are given in per cent of the 1935-39 average and cover the period by months from January 1929 to date. These series reflect the movement of inventories, expressed in terms of the dollar retail value rather than the physical volume of merchandise in stock at the close of each month. Hereafter, the Bank will release current stock indexes each month together with the department store sales indexes.

The District index is based on the experience of two hundred twenty-eight department stores located in eighty-nine cities within the District. These department stores are representative of independent stores, chain stores, and retail outlets of mail-order companies, located in small, medium, and large cities. The District and the individual city stock indexes have been tied to the corresponding indexes of sales which are adjusted to Census of Business data. The new stock indexes will be incorporated with corresponding figures for the other eleven Federal Reserve Districts into a national index which will be compiled and published by the Board of Governors of the Federal Reserve System.

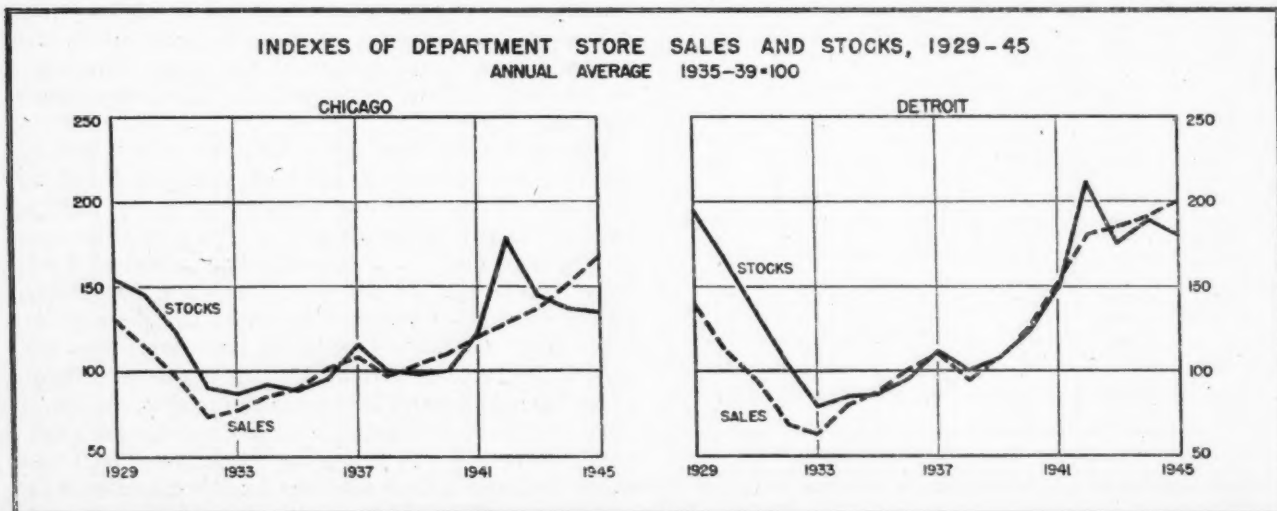
### INVENTORIES REACH PEAK IN 1942

Inventories at reporting department stores in the Seventh District reached a peak on August 31, 1942—114 per cent higher than the average for 1935-39. This accumulation of inventories undoubtedly reflected to



some extent heavy advance buying in anticipation of wartime scarcities. During the subsequent war years, however, inventory levels continued high.

Estimates of the average retail value of stocks of all department stores in the Seventh District and the cities of Chicago, Detroit, Indianapolis, and Milwaukee for the years 1929 to 1945 are shown in Table I. The average retail value of merchandise on hand during the war years of 1942-44 was estimated at \$255 million for the Seventh District or about 63 per cent larger than the average for 1939, the last year prior to the war. At the time of the Pearl Harbor attack the estimated retail value of inventories was \$270 million, compared with \$260 million in August 1945. The average value of stocks increased from





**TABLE I**  
**ESTIMATED AVERAGE MONTHLY STOCKS**  
**OF DEPARTMENT STORES IN THE**  
**SEVENTH FEDERAL RESERVE DISTRICT**  
(In millions of dollars, retail value)

Year	Seventh District	Chicago	Detroit	Indianapolis	Milwaukee
1929	206	81	29	8	13
1930	194	77	25	7	13
1931	166	65	20	6	12
1932	129	48	15	5	10
1933	120	46	12	5	10
1934	129	48	12	6	11
1935	131	48	13	6	11
1936	143	50	14	6	12
1937	173	60	16	7	13
1938	153	53	15	7	12
1939	156	52	16	7	12
1940	167	53	18	8	12
1941	203	64	22	11	14
1942	282	93	31	15	19
1943	241	76	26	13	17
1944	243	72	28	14	19
1945	241	71	27	14	21

Note: Estimates of the average end-of-month stocks are computed by multiplying the unadjusted index by the estimated dollar value of average monthly stocks during the base period 1935-39.

**TABLE II**  
**SALES-TO-STOCK RATIOS OF DEPARTMENT**  
**STORES IN THE SEVENTH FEDERAL**  
**RESERVE DISTRICT**

Year	Seventh District	Chicago	Detroit	Indianapolis	Milwaukee
1929	3.8	3.6	4.4	4.3	3.8
1930	3.5	3.3	4.3	3.8	3.6
1931	3.6	3.3	4.5	4.2	3.4
1932	3.5	3.4	4.4	3.8	3.2
1933	3.8	3.7	5.0	3.8	3.1
1934	4.1	3.9	6.1	4.2	3.2
1935	4.4	4.2	6.6	4.5	3.4
1936	4.7	4.5	6.9	4.8	3.6
1937	4.2	4.0	6.5	4.2	3.6
1938	4.3	4.1	6.1	4.3	3.6
1939	4.6	4.4	6.4	4.3	3.6
1940	4.7	4.6	6.7	4.3	4.0
1941	4.5	4.2	6.6	3.8	4.1
1942	3.5	3.0	5.5	3.2	3.4
1943	4.5	4.0	6.8	4.4	4.2
1944	4.8	4.6	6.7	4.5	4.3
1945	5.4	5.2	7.3	5.2	4.4

Note: Sales-to-stock ratios, or annual rate of stock turnover, are computed by dividing total sales for the year by average monthly stocks, both amounts at retail value.

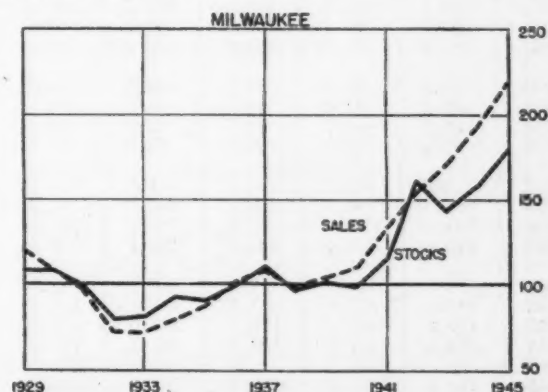
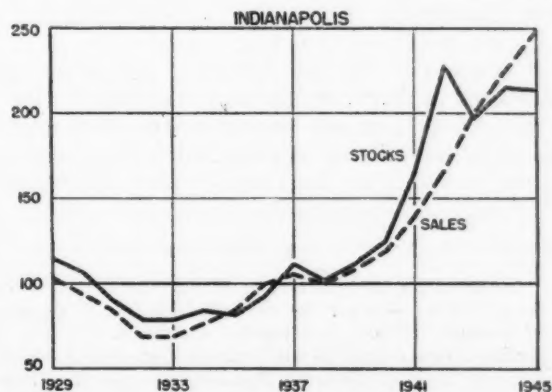
1938 to 1942 (sharply so in 1941 and 1942), declined in 1943, and again increased in 1944. During 1945 stocks showed a slight decrease.

Throughout the war period inventories were maintained at record dollar levels despite the fact that retailers were confronted with shortages of merchandise combined with an increased sales volume unequalled in prewar retailing. The composition of stocks was changed by the disappearance of major household appliances and scarcities in such lines as furniture, apparel, floor coverings, and cotton materials. Replacements were frequently made by substitute goods of lower quality

and by higher priced lines. Manufacturers' delivery of goods "when ready" altered the seasonal pattern of the merchants' purchases. These factors were relieved in many cases, however, by a quota system of distribution of goods to merchants, voluntary restrictions on the purchase of stocks, and less apparent shortages in certain lines such as women's apparel, gift items, and soft goods.

Inventories maintained by retailers since V-J Day were sufficient to support record-breaking sales by department stores. Despite depleted stocks in certain lines and many failures to receive shipments of merchandise from manufacturers for such reasons as labor troubles

**INDEXES OF DEPARTMENT STORE SALES AND STOCKS, 1929-45**  
ANNUAL AVERAGE 1935-39=100



and pricing difficulties, consumers continued to find something to buy. Scarce items will return to store inventories as reconversion progresses.

Although stores in all of the principal cities in the District increased stocks on hand from the peacetime year of 1939 to the peak in the middle of 1942, the experience during the subsequent war years has varied considerably. For example, the 1945 dollar value of stocks in Chicago department stores was about one-fourth less than in 1942, while in 1945 inventories in Milwaukee stores were slightly above the 1942 level.

In the prewar period from 1929 to 1939, the Seventh District index of average monthly stocks varied from the 1929 high of 137 per cent to a low of 79 per cent in 1933, but gradually recovered to 114 per cent in 1937. Detroit stores were more adversely affected by the depression than stores in the other cities—with a sharper drop in sales and a corresponding reduction of 59 per cent for estimated merchandise in stock from 1929 to 1933.

#### STOCK TURNOVER RATE INCREASING

As may be noted in the sales-to-stock ratios in Table II, merchandise moved faster in the District in 1945 than in any other year during the 1929-45 period. The current high rate of stock turnover, 5.4, reflected increased sales volume rather than any substantial reduction of inventory. In 1942 the sales increase did not match the pace of accumulating inventories, and as a result, the rate of turnover was only 3.5. Stock turnover rates for the other war years, however, have not differed much from the 4.6 rate in 1939, the last prewar year. The turnover rate was 4.7 in 1940, 4.5 in both 1941 and 1943, and

TABLE III  
INDEXES OF DEPARTMENT STORE STOCKS  
SEVENTH FEDERAL RESERVE DISTRICT  
(Annual averages, 1935-39=100)

Year	Seventh District	Chicago	Detroit	Indianapolis	Milwaukee
1929	136.6	155.2	195.3	114.1	108.6
1930	128.1	146.5	166.4	107.7	108.1
1931	109.7	123.1	135.3	91.0	99.8
1932	85.4	91.7	103.8	78.0	80.4
1933	79.4	87.5	78.5	78.2	81.4
1934	85.6	91.8	84.3	83.5	92.8
1935	86.7	90.7	86.7	82.8	90.3
1936	94.6	95.3	94.5	92.0	99.6
1937	114.2	115.1	110.6	111.3	110.5
1938	101.1	100.3	100.6	102.4	97.9
1939	103.4	98.6	107.6	111.4	101.7
1940	110.6	100.4	122.3	123.4	98.9
1941	134.3	121.3	149.4	164.1	115.7
1942	186.5	177.9	211.1	226.7	162.3
1943	159.6	145.1	175.7	197.0	144.5
1944	160.8	137.9	187.1	215.5	158.2
1945	159.0	135.6	179.0	213.0	180.0

TABLE IV  
INDEXES OF DEPARTMENT STORE SALES  
SEVENTH FEDERAL RESERVE DISTRICT

(Annual averages, 1935-39=100)

Year	Seventh District	Chicago	Detroit	Indianapolis	Milwaukee
1929	115.8	131.4	138.4	104.9	120.4
1930	101.4	114.4	111.0	93.7	108.1
1931	88.0	96.8	94.0	85.4	97.1
1932	67.2	74.3	69.5	68.3	72.5
1933	67.7	77.1	61.1	68.0	71.7
1934	78.9	85.0	78.7	77.6	80.9
1935	85.8	89.0	87.7	85.0	87.1
1936	99.9	101.4	100.7	99.1	101.1
1937	108.9	108.4	109.4	106.6	109.7
1938	98.1	97.1	95.0	100.5	98.5
1939	107.4	104.1	107.1	108.9	103.7
1940	116.1	109.4	125.5	118.1	109.9
1941	135.0	120.7	152.7	140.7	134.1
1942	149.3	128.2	179.7	166.1	155.4
1943	161.4	137.6	185.0	200.4	171.3
1944	176.1	151.4	192.6	223.4	194.0
1945	193.0	167.5	201.1	248.9	219.7

4.8 in 1944.

In the different cities there were marked variations in the rates at which stocks of merchandise were sold and replenished. The stock turnover rate of the Detroit stores has been consistently much higher than the average for the District or for the other large cities. This trend was marked in the depression years and has continued throughout the war years, with a turnover rate since 1934 of more than one-third above the District average. In the immediate prewar years, Chicago and Indianapolis had turnover rates close to the District average, while Milwaukee was consistently lower. In 1943 and 1944 the comparisons were not so far apart, Chicago stores having turnovers of 4.0 and 4.6 respectively, Indianapolis 4.4 and 4.5, and Milwaukee 4.2 and 4.3, while Detroit stores experienced turnovers of 6.8 and 6.7. The 1945 results, however, are again like the prewar pattern. Chicago and Indianapolis stores, both with a turnover of 5.2, followed the District trend; Detroit stores, with 7.3, were consistently higher, and Milwaukee stores, with 4.4, again had lower turnover.

It is probable that the volume of orders outstanding maintained a larger relationship to sales as the war progressed than in the prewar years. Because of the increasing difficulty in obtaining adequate inventories it became necessary for merchants to place the request for merchandise on order for delivery when available.

Copies of the monthly indexes of department store stocks from 1929 to date for the Seventh District and the cities of Chicago, Detroit, Indianapolis, and Milwaukee may be obtained upon request to the Research Department, Federal Reserve Bank of Chicago, Box 834, Chicago 90, Illinois.

# Business Conditions

*A Review by the Federal Reserve Bank of Chicago*

## INDEX FOR THE YEAR 1945

### AGRICULTURE

- Farm Income and Indebtedness
  - Farm Mortgages Continue Decline. Jan., 1-3.
  - The Farmer as a Customer. Aug., inside front cover, 8.
- Farm Labor
  - Farm Labor Tightens. Feb., 6-7.
- Farm Machinery
  - Farm Machinery Continues Short. Apr., inside front cover, 5-6.
- Legislation
  - Agriculture in the Legislative Hopper. Nov., 5-7.
- Prices and Production
  - Farm Prices Reach Wartime Peaks. Mar., 4-8.
  - Fat Situation Tightens. June, inside front cover.
  - New Crop Records Set. Sept., inside covers.
  - The Crisis in the Food Situation. May, inside covers.
  - 1946 Agricultural Prospects Favorable. Nov., inside front cover, 8.

### BANKING AND WAR FINANCE

- Deposits
  - Seventh District Deposit Growth. June, 1-4.
- Federal Budget
  - The President's Budget Message. Jan., 6-7.
- War Loan Drives
  - Results of the Sixth War Loan Drive. Jan., inside front cover, 8.
  - The Seventh War Loan Drive. Aug., 5-7.

### CHICAGO

- Chicago's Wartime Economic Changes. Sept., 7-8.
- Chicago's Wartime Economic Changes—II. Oct., 5-6.

### CONSTRUCTION

- Construction Declines Further in 1944. Jan., 4-5, 7.

### INDUSTRY

- War Production
  - Basic Material Shortages Intensify. Feb., 1-3.
  - War Contracts Surge Upward. Feb., 4-5.
  - Wartime Great Lakes-Inland Shipbuilding. Mar., 1-3, 8.

### INDUSTRY—Continued

- Reconversion
  - Machine Tools—Bottleneck to Reconversion? July, inside covers, 6-8.
  - Reconversion in the Seventh District—I. Sept., 1-3.
  - Reconversion in the Seventh District—II. Nov., 1-4.
  - T Loans—Financial Aid to Reconversion. July, 1-5.

### INTERNATIONAL FINANCE AND TRADE

- Export-Import Bank Activities Expanded. Oct., 1-4.
- Gold and Foreign Dollar Balances. Apr., 7-8, inside back cover.
- Reciprocal Trade Agreements—Past and Present. Sept., 4-6.

### NATIONAL SUMMARY OF BUSINESS CONDITIONS

- Jan., Feb., June, Aug., Oct., Nov., inside back cover;
- Dec., inside front cover.

### RETAIL TRADE AND CONSUMER CREDIT

- Department Store Sales and Stocks
  - Department Store Sales Reach New High. Feb., inside front cover, 8.
  - Distribution of Department Store Sales. June, 5-8.
  - New Indexes of Department Store Stocks. Dec., 6-8.
  - Record Set in Department Store Sales. Dec., 5.
- Retail Credit Survey
  - Decline in Retail Credit Stemmed. May, 5-8.

### STATE AND LOCAL FINANCE

- Federal Grants
  - Federal Aid to States in the Seventh District. May, 1-4.
  - Financing Airport Facilities. Oct., inside front cover, 7-8.
- Taxes and Expenditures
  - Property Tax Reform in Illinois. Aug., 1-4.
  - State Budgets in the Seventh District. Mar., inside covers.
  - State Tax Systems in the Seventh District. Apr., 1-5.
- Unemployment Compensation
  - Financing Unemployment Compensation—I. Dec., 1-4.



**SEVENTH FEDERAL**



**RESERVE DISTRICT**



